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Current Support Brief

SOVIET CONSUMERS FACE CONTINUING RESTRICTIONS



CIA/RR CB 63-41

26 April 1963

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SOVIET CONSUMERS FACE CONTINUING RESTRICTIONS

The Soviet people have been told bluntly that the often-promised increase in the standard of living must once again be postponed because of increasing strains on the nation's resources. On 27 February, Khrushchev gave a dispirited election speech in his home constituency of Kalinin in which he made an emotional appeal for popular understanding about the failures in consumer production, linking them directly with the demands of the defense industry.* 1/ Had the international situation been different, Khrushchev implied, he could have made good his earlier promises to consumers. Official data for Soviet light industry indicate, however, that, despite the change in official tone this industry's problems have been accumulating for some time, particularly since the end of 1960. The rates of growth for almost all major commodities of light industry have declined each year since 1959, scarcities of raw materials have resulted from the failure of agriculture to keep pace with demands of the industry, and restraints on capital investments in the industry have slowed the construction of new facilities. In view of these multiple strains on the industry, Khrushchev seemed also to be giving notice that future plans for increases in the quantity of consumer goods may not be fulfilled.

1. Declining Rates of Growth

Fulfillment of the 1965 goals for major consumer commodities is, indeed, virtually impossible without a major push, in view of light industry's performance (and that of the related industries) thus far in the plan period. After 4 years of work toward the achievement of these goals, total production of textiles in physical quantity had increased by only 14 percent, whereas an increase of 40 percent during the period 1959-65 will be required to meet the goals. Furthermore, the extremely small increases above production levels in 1962 evident in the

* For a chronological buildup and deflation of consumer objectives in Khrushchev's own words, see the Appendix.

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1963 plans for key commodities in light industry, hold little promise for Soviet consumers. 2/ Indexes of physical production for the major commodity groups of light industry are as follows (1958 = 100):

Textiles					
	<u>Cotton</u>	<u>Wool</u>	<u>Linen</u>	<u>Silk*</u>	<u>Total</u>
1958	100	100	100	100	100
1959	106	108	110	95	106
1960	110	113	116	96	111
1961	111	117	110	97	112
1962	111	121	108	111	114
1963 (Plan)	114	121	N.A.	112	N.A.
1965 (Plan)	133	165	132	176	140

Footwear and Clothing					
	<u>Leather Footwear</u>	<u>Knit Outerwear</u>	<u>Knit Underwear</u>	<u>Hosiery</u>	<u>Sewn Garments</u>
1958	100	100	100	100	100
1959	109	107	110	104	110
1960	118	115	118	109	119
1961	124	121	122	113	127
1962	128	128	130	N.A.	132
1963 (Plan)	129	N.A.	N.A.	N.A.	N.A.
1965 (Plan)	144	164	195	146	168

2. Insufficient Capital Investment

Paralleling the decline in the rates of growth of production, light industry has shown a poor performance in its capital investment program. Achievements in investment for the first 3 years of the Seven Year Plan were notably unimpressive. In 1959, actual investment in

* Including fabrics of rayon, synthetic fiber, and natural silk.

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light industry increased by only 1 percent. The following year the reported increase of 8 percent reflected a short-lived attempt by Khrushchev to boost allocations to "speed the development of light industry," an effort that was not sustained. 3/ Because of mounting difficulties, particularly in procuring machinery and setting it in operation, there followed in 1961 an absolute decline in the amount of funds invested, as shown in the following tabulation 4/:

	Reported Annual Investment (Million Rubles*)	Index (1958 = 100)
1958	625	100
1959	631	101
1960	681	109
1961	671	107

A further indication of the failures in the industry is the rise in investment in construction projects that have been begun but have not been completed. According to official data, investment tied up in unfinished projects in light industry rose from 282 million rubles at the beginning of the plan period to 420 million in 1961. 5/ To cope with this problem of increasing investment without payoff in terms of production, the number of plants scheduled for construction was reduced, and emphasis was shifted to the expansion of existing plants and to the modernization of machinery and production processes.

3. Shortages of Raw Materials

Expansion of production of textiles has been limited by shortages of raw materials -- not only agricultural but also, to a lesser degree,

* Ruble values in this publication are given in new rubles as established by the Soviet currency reform of 1 January 1961. A nominal rate of exchange based on the gold content of the respective currencies is 0.90 ruble to US \$1. This rate should not be interpreted as an estimate of the equivalent dollar value of similar US goods or services.

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chemical. The severity of the problem in the supply of raw materials is shown by the fact that, although the output of all types of textile fibers in the USSR in 1961 was 6 percent above the level of that in 1958, production in 1962 dropped to a level only 2 percent greater than in 1958, as shown below:

	Production of Textile Fibers (Thousand Metric Tons)	Index* (1958 = 100)
1958	2,380	100
1959	2,450	103
1960	2,420	102
1961	2,530	106
1962	2,430	102

The principal problem in light industry is the shortfall in production of cotton, which makes up almost 60 percent of the total output of fibers. Shortfalls in production of rayon and synthetic fiber compound the problem. The use of these chemical fibers as substitutes for natural fibers has fallen far short of planned achievement, and at present they account for only about 10 percent of the total production of fibers. In recent weeks, Soviet officials have made efforts to stimulate both of these lagging programs, although measures appear to be too little and too late to affect the goals for light industry. Production of cotton received special attention in the recent decision to increase the delivery price to cotton-growing collective farms by an average of 20 percent and to state farms by about 12 percent. ^{6/} Whether this increase in cost will be passed to consumers in the form of higher prices for cotton textiles or be absorbed within the industry or within the turnover tax is not known. A retail price increase to cover this cost, if levied equally on all cotton textiles, would be comparatively small, however, probably less than 5 percent.

* Primarily because the base year (1958) was an unusually good crop year, the index for production of textile fibers shows a smaller increase than does the index for production of fabrics shown above.

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4. Prospects

If Khrushchev's statements of early 1961 that urged the allocation to consumption of a greater share of the nation's resources reflected an actual attempt to push such a policy, he was overoptimistic, and his efforts have fallen far short of the goal. Although achievements in light industry (see production indexes above) suggest that the year 1960 saw the climax of Khrushchev's consumer program, the year 1963 seems to show a continuing decline in the priority given the program, even though it may continue to achieve modest gains. Official discussion relating to consumers since the Khrushchev speech of February 27 seems to be shifting more toward subjects of welfare and consumer services, whereas references to production of consumer goods tend to show an element of restraint. May Day slogans this year have dropped the "Catching Up with the US" theme and, instead, promise continued welfare growth. 7/ A report by the Chairman of the RSFSR Council of Ministers to the Supreme Soviet of the RSFSR heavily emphasized the role of public services, while discussion of consumer goods was confined largely to improvements in quality and assortment. 8/ An immediate course of action is suggested by the resolution of this meeting in which officials of light industry are exhorted to seek out "hidden reserves" and to utilize more efficiently the existing machinery and equipment in light industry itself. The resolution also calls for greater effort by heavy industry to support the needs of consumer production. 9/

In brief, recent Soviet developments, viewed against achievements in light industry during the last 4 years, suggest that consumers can expect little in the way of substantial gains in the near future. Although there are indications that the regime is attempting to find ways of improving the consumer outlook without cutting into the defense program and/or heavy industry, most of these measures probably will be in the nature of bootstrap operations. These attempts are being and undoubtedly will be accompanied by a barrage of official propaganda designed to reassure the consumer that all possible is being done in his behalf. It must be obvious to the Soviet citizen, however, that hopes born of official promises of "the highest living standard" must once again be replaced by prolonged waiting.

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APPENDIX

Selected quotations from Khrushchev's speeches during the period 1959-63 that relate to production of consumer goods are listed below in chronological order:

Khrushchev's speech before the Supreme Soviet: "We are setting the following task: after implementation of the 7-year plan (1959-65), to catch up within 5 years, and then to outstrip, the United States in per capita consumption of consumer commodities including textiles and footwear . . . , we shall in the immediate future reach the production and consumption level of the United States, the wealthiest country of the capitalist world, . . . and then we will enter the open sea in which no comparisons with capitalism will anchor us." (Pravda, 6 May 1960)

Khrushchev's speech to the Conference of Representatives and Workers Parties in November 1960: "Neglect for the material requirements of the working people and concentration of emphasis on . . . social and moral forms of incentive and reward has retarded development of production and the raising of the living standards of the working people." (Kommunist, no 1, 1961, p. 14)

Khrushchev's speech before the Academy of Social Sciences and the Party Central Committee's Institute of Marxism-Leninism: " . . . We shall transfer part of the capital investment to agriculture and light industry. Communism cannot be built only by offering machines and ferrous and nonferrous metals. It is necessary for people to be able to eat well, dress well, and have housing and other material and cultural conditions. This is not a revision of our general line but rather a sensible use of our material potentialities. When we were in an encirclement of enemies . . . , we economized everything Now the situation is different." (Pravda, 25 Jan 1961)

Khrushchev's statement to correspondents at the British Trade Fair in Moscow on 20 May 1961: "Now we consider our heavy industry as built; so we are not going to give it priority. Light industry and heavy industry will develop at the same rate." (New York Times, 29 Jun 1961)

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Khrushchev's speech to Cuban students on 3 June 1962: "Our enemies [want us] to channel additional big allocations for the development of animal husbandry at the expense of industry ... and defense We cannot do this." (FBIS, 4 Jun 1962)

Khrushchev's speech at Grivita Rosie Plant in Rumania on 19 June 1962: "We must live like a good housewife, who ably decides what to buy and when Naturally it is not pleasant for us to waste the labor of many people ... on the production of means of destruction [But if we reduce funds for defense,] ... will the people praise us for this?" (FBIS, 20 Jun 1962)

Khrushchev's election speech in Kalinin: "Of course, had the international situation been better, had it been possible to achieve agreement and to shake off the burden of armaments, that would have multiplied the possibilities for a further improvement of the economy and for raising the welfare of the people"

"On the one hand, one would like to build more enterprises producing consumer goods On the other hand, life dictates the need to spend enormous sums on maintaining our military might The time will come when ... we shall have clothes for every occasion ... , but you must be patient; wait a while and you will have everything. We can't make everything at once. It is impossible. The wish alone is not enough."

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